

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BFN 2114 – INVESTMENTS
(ALL SECTIONS)

17 OCTOBER 2016
2.30 P.M. – 4.30 P.M.
(2 HOURS)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 6 pages with **TWO** sections.
2. Answer **ALL** questions in **Sections A and B**. The marks for each section are given in the question paper.
3. Please write your answers for Section A and B in the answer booklet.

SECTION A (40 marks): Answer ALL questions. Choose the best answer.
Each question carries 2 marks.

- Q1. Which of the following is **not** a consideration in the three-step valuation process?
- a. Analysis of alternative economies
 - b. Analysis of security markets
 - c. Analysis of alternative industries
 - d. None of the above (that is, all are considerations in the three-step valuation process)
- Q2. The process of fundamental valuation requires estimates of all the following factors, **except**
- a. The time pattern of returns
 - b. The times series of stock prices
 - c. The economy's real risk-free rate
 - d. The risk premium for the asset
- Q3. The Absolute Finance Company (AFC) earned RM5 a share last year and paid a dividend of RM2 per share. Next year, you expect AFC to earn RM6 a share next year and continue its payout ratio. Assume that you expect to sell the stock for RM45 a year from now. What is the expected dividend in one year?
- a. RM2.00
 - b. RM2.40
 - c. RM0.13
 - d. RM0.11
- Q4. Consider a firm that has just paid a dividend of RM1.50. An analyst expects dividends to grow at a rate of 9% per year for the next three years. After that dividends are expected to grow at a normal rate of 5% per year. Assume that the appropriate discount rate is 7%. The future price of the stock in year 3 is:
- a. RM84.81
 - b. RM92.56
 - c. RM101.85
 - d. RM111.16

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- Q5. A company has a dividend payout ratio of 35 percent. If the company's return on equity is 15 percent, what is the expected growth rate if no new outside financing is used?
- a. 4.50%
 - b. 5.25%
 - c. 9.75%
 - d. 8.25%
- Q6. What might cause an industry's sales to decline?
- a. Changes in consumer tastes
 - b. Sluggish economic growth
 - c. Product obsolescence
 - d. All of the above
- Q7. At what stage in the industrial life cycle is there an influx of competition?
- a. Early pioneering development
 - b. Mature growth
 - c. Rapid accelerating growth
 - d. Acquisition and consolidation
- Q8. Which of the following statements is **false** regarding the business cycle and industry sectors?
- a. Lower inflation is generally negative for stocks.
 - b. Financial and housing industries will be adversely affected by high interest rates.
 - c. Economic growth in world regions or specific countries benefits industries with a large presence in the areas.
 - d. The performance of consumer cyclical industries will be affected by changes in consumer sentiment.
- Q9. In 2004, Montpelier Berhad issued a RM100 par value preferred stock that pays a 9 percent annual dividend. Due to changes in the overall economy and in the company's financial condition, investors are now requiring a 10 percent return. What price would you be willing to pay for a share of the preferred if you receive your first dividend one year from now?
- a. RM100
 - b. RM110
 - c. RM75
 - d. RM90

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- Q10. The index of leading indicators includes all of the following, **except**:
- a. M2 money supply
 - b. S&P 500 Index
 - c. Orders for plant and equipment
 - d. Changes in the sensitive materials price
- Q11. Which of the following items is NOT needed when estimating the expected earnings per share (EPS) for a market series?
- a. Gross Domestic Product
 - b. Tax Rate
 - c. Aggregate Operating profit margin
 - d. None of the above (that is, all are needed)
- Q12. Which of the following is **NOT** a reason why the stock prices lead the economy?
- a. Stock prices reflect expectations of earnings, dividends, and interest rates.
 - b. The stock market reacts to various leading indicator series.
 - c. Stock prices are a better leading indicator series compared to the economy.
 - d. None of the above (that is, all are reasons)
- Q13. The dividend payout ratio for the aggregate market is 55 percent, the required rate of return is 15 percent, and the expected growth rate for dividends is 7 percent. Compute the current earnings multiple.
- a. 3.93
 - b. 78.6
 - c. 6.88
 - d. 39.3
- Q14. A ____ stock possesses a high probability of low or negative rates of return and a low probability of normal or high rates of return.
- a. Growth
 - b. Defensive
 - c. Cyclical
 - d. Speculative

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- Q15. In a(n) _____ strategy, a firm seeks to identify itself as unique within its industry.
- Defensive
 - Differentiation
 - Offensive
 - Low-cost
- Q16. Which three factors influence the capital gain component of a growth company?
- The firm's expected growth of earnings per share
 - The amount of capital invested in growth investments
 - The rate of return earned on the funds relative to the required rate of return
 - The required rate of return on the security based on its systematic risk
 - The firm's dividend payout ratio
 - The time horizon when these growth investments will be available
- 2, 3 and 6
 - 1, 3 and 5
 - 2, 3 and 5
 - 3, 4 and 6
- Q17. In SWOT analysis, one examines all of the following factors, **except**
- Strengths
 - Weaknesses
 - Opportunities
 - Turnarounds
- Q18. Given Gitech Berhad's beta of 1.55 and a risk free rate of 8 percent, what is the expected rate of return assuming a 14 percent market return?
- 12%
 - 14.3%
 - 17.3%
 - 20.4%
- Q19. ABC Berhad has paid annual dividends in the past five years of RM0.20, RM0.25, RM0.28, RM0.33, and RM0.36. Calculate the average growth rate of its dividends.
- 1.16%
 - 1.80%
 - 12.47%
 - 15.83%

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Q20. A firm has a current price of RM40 a share, an expected growth rate of 11 percent and expected dividend per share (D_1) of RM2. Given its risk, you have a required rate of return for it of 12 percent. Your expected rate of return and investment decision is as follows:

- a. 10% - do not buy
- b. 12% - do not buy
- c. 14% - buy
- d. 16% - buy

SECTION B (60 marks): Answer ALL questions.

Question 1

Distinguish between weak form, semi-strong and strong form efficient market hypothesis. Then, discuss the significance of efficient market hypothesis (EMH) to financial managers when capital market is in semi-strong efficiency.

(Total: 20 marks)

Question 2

Stock	Price ($t = 0$)	Quantity ($t = 0$)	Price ($t = 1$)	Quantity ($t = 1$)	Price ($t = 2$)	Quantity ($t = 2$)
Amber	70	200	72	200	36	400
Blueberry	85	500	81	500	81	500
Cherry	105	300	98	300	98	300

Based on the information given in the above table, you are required to compute the following the price changes (in percent) for the first period ($t = 0$ to $t = 1$) for part (a) to (c) by using the following weighting methods:

- (a) A price-weighted index of the three stocks. **(5 marks)**
- (b) A market-value-weighted index for the three stocks. **(5 marks)**
- (c) An equally-weighted index for the three stocks. **(5 marks)**
- (d) Calculate the value of the divisor in the second period ($t = 2$). Assume that Stock Amber had a 2-1 split during this period. Then, calculate the rate of return for the second period ($t = 1$ to $t = 2$). **(5 marks)**

(Total: 20 marks)

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Question 3

- (a) Explain the term exchange traded fund (ETF). (5 marks)
- (b) Your aunt understands that you are taking Investments subject in Multimedia University. You are asked to explain to her three popular trading rules used in making investment decisions. You are required to show the rules as well as the buy and sell signals in three different graphs. Label the graphs. (15 marks)

(Total: 20 marks)

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